

A POLICY PROPOSAL OF ESTABLISHING OFFICIAL RURAL PENSION INSTITUTIONS IN CHINA

by
Chenhui Wang

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Abstract

The aging population has become one of the significant social problems around the world. China has reached the national standard of the aging population in 2000. More and more older people need supports from the country. Since the establishment of a partially accumulated pension fund system, the transition costs have brought a heavy debt to the system. Even though the central government has taken some actions to reduce the system's debt, the payback is still low. China is an agricultural country. It has a higher percentage of non-urban residents. The policy proposal analyzes the main existing problems and causes of China's pension fund system based on the aging population's current situation and future trend. The policy proposal aims to improve the current pension system's efficiency by establishing an Official Rural Pension Institution to encourage more rural residents to participate.

Advisors: Professor Paul Weinstein

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To: Chewei Zhang, President of The Institute of Population and Labor Economics, Chinese Academy of Social sciences

FROM: Chenhui Wang

DATE: Sep.7th, 2020

Action-Forcing Event

On September 3rd, 2020, the “Ministry of Human Resources and Social Security of the People’s Republic of China” stated that they are studying relevant policies and measures to meet the needs of an aging population with the arrangements and requirements of the CPC and the State Council.¹ Since last year, postponing retirement has been a hot topic in China. Because of the accelerated speed of population aging and the pension fund's deficit in China, the Chinese government pays more attention to the endowment insurance.

Statement of the Problem

The aging population is putting heavy payment pressure on the current pension fund system. With the rapid increase of the elderly population in China, the pension fund system will become the largest expenditure item in the entire social security system. The increase in life expectancy will also extend the period for the elderly to receive pensions and the state will face increasing pressure on pension payments. Therefore, the biggest problem faced by China is the fund deficit problem, which has the dual pressure of income reduction and expenditure increase.

Under the pay-as-you-go pension system, the pensions of the elderly actually existed in the form of implicit debts, which means that the pension debts are paid by the current contributors. When the old system is replaced by a new system of combined pension mode, there is a hard problem that one generation must support two generations’ pension fees. In other words, contemporary workers must pay enough for themselves and enrich their “personal pension

¹ Department of wages and welfare. Ministry of Human Resources and Social Security of the People’s Republic of China. “A letter to netizen’s concern of postponing retirement”. September, 2020.

accounts,” and also need to fill the old-age debts of elderly workers. This part of the liability actually constitutes the transition cost of the pension system, which was named “hidden debt” by the World Bank. There are three main parts of the “hidden debt”: pension fees of retirees before the reformation, the vacancies of the “personal accounts” of current employees who work for the companies before the new system’s implementation and related value-added amounts, and the additional pensions caused by price level adjustments.

All reformations always ignore an important question about who will pay for the cost of transformation. After the mid-1990s, state-owned enterprises entered a critical stage. According to the new pension fund system, enterprises not only need to accumulate personal accounts for existing employees, but also need to pay pensions for their retired employees. The “elderly” and the “middle-aged” had no personal accounts before the reform. However, the old pension system promised that these people’s pension fees would be paid on time after their retirement. The reformed policy only stipulates “social pooling.” There is no clear statement about the repayment issue, resulting an increasing gap in pooling accounts. The revenues of the new system could not cover the expenditure. When the enterprises’ social pooling accounts do not have enough money to pay the pension fees for retirees, they choose to use the money of new accounts to cover the old accounts’ expenditures. Since the social pooling accounts and personal accounts are still operating in a mixed manner, personal accounts’ funds are inappropriately used to fill the gap of pooling accounts. As a result, most personal accounts are empty. The problem of empty accounts has prevailed after the reform, and has not been solved by the government. In order to realize the transition from the pay-as-you-go system to the partially accumulated system of “combined accounts,” the Chinese government needs to pay those hidden debts to complete the reformation.

The continuous increase in subsidies to pension fund system has brought huge financial pressure to the central government. The best way to solve the transition costs problem is to pay off

the debt at one time, but the central government's fiscal expenditure cannot afford the huge gap at once. Because of the gap, the central government allocates a large amount of funds to subsidize the new pension system every year. Also, the number of subsidies is rising rapidly each year. According to the World Bank's forecast, the gap of total income and expenditure from 2001 to 2075 will reach 9.15 trillion yuan.² The huge gap will become a severe challenge to the Chinese national finance. The growing trend of aging population in China and even in the world is irreversible. Apparently, the aging phenomenon will continue during the 21st century.

Comparison of Aged Population Proportions in Rural and Urban Areas

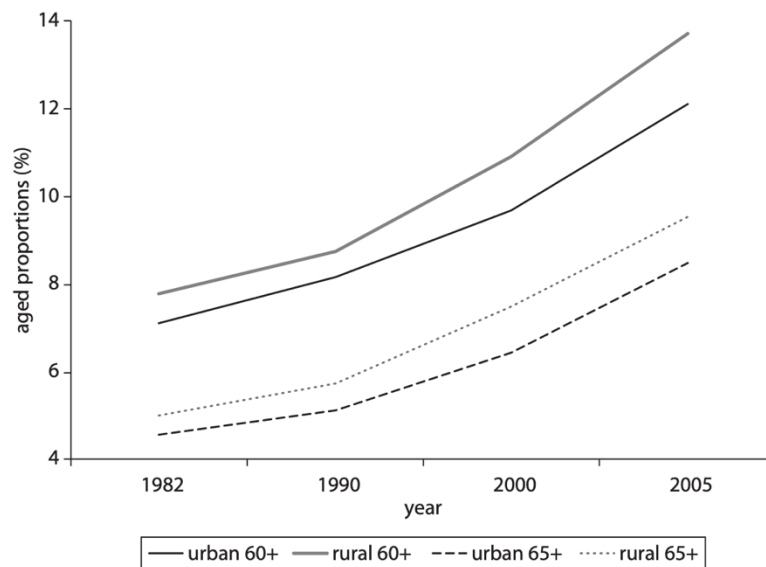


Figure.1

Sources: NBS 2008, 2007b, 2001; Yao and Yin 1994.

Population aging has been uneven between urban and rural areas. According to Figure.1, the aging problem is more serious in those rural areas. The aging portion in rural area is 1.24% higher than that in urban areas.³ However, the coverage of the pension fund system is still narrow in rural areas. Most of the financial investment is allocated to urban residents, and the expenditures

² Huai-cheng Xiang. "China's pension system is facing a Test; social funds have a long way to go." Jan. 2011.

³ CHYXX. "An analysis of China's total population, population structure, urban and rural population and Population Aging in 2019." April, 2020. \

are very limited for the rural pension system. Most rural areas do not have specific pension institutions to support the policy. The current regulation capacity is very limited. The traditional family care for the elderly has gradually collapsed in rural areas. These old non-urban residents do not have fixed income, and the problem of elderly care need to be solved as soon as possible. There are 807.39 million people living in Chinese rural areas, accounting for 63.78% of the total population.⁴ Even though there are about 524 million non-urban residents participating in the rural pension fund system, most of them prefer to pay at the lowest level of pension fees, 2 yuan per month.⁵ Regardless the factor of inflation, if a farmer starts to receive a pension after 10 years of his or her payments, he or she only can receive 4.7 yuan per month; and 15 years later, he or she can receive 9.9 yuan per month.⁶ This form of protection is far from the original goal of the current policy.⁷ From the current general point of view, residents who did not participate to the pension system will affect both the coverage and the income of the system. In the long run, their pension problem may become a social problem.

History/Background

With the establishment of New China, a pension system led by the central government began to be developed. In 1951, the State Council promulgated the "Regulations on Labor Insurance of the People's Republic of China" (revised in 1953 and 1956), which basically achieved all pension coverage in cities.

⁴ CHYXX. "An analysis of China's total population, population structure, urban and rural population and Population Aging in 2019."

⁵ China Business Industry Research Institute. "In 2018, 942 million people participated in basic pension insurance nationwide. Total fund revenue reached 5.4 trillion yuan." Feb, 2020.

⁶ China Business Industry Research Institute. "In 2018, 942 million people participated in basic pension insurance nationwide."

⁷ Chang-hua Sun. "Problems of rural pension system." Global Action on Aging.

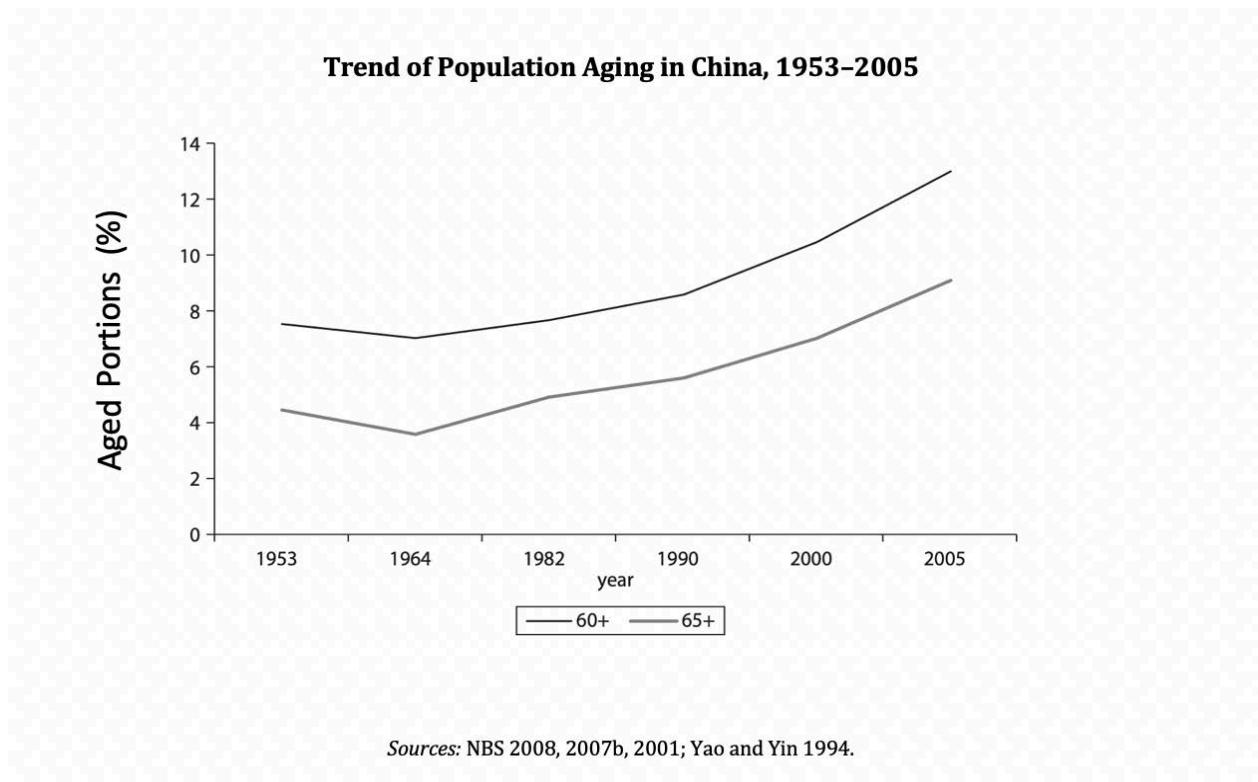


Figure 2.

From 1980 to 2000, China's population experienced a transition from low mortality, high birth rate, and high growth rate to low death rate, low birth rate, and low growth rate. In the 1990s, the total fertility rate was very low, about 1.7%, which was much lower than in other developing countries.⁸ This transition led to the trend of aging population. At the same time, the World Bank proposed that a fund accumulation system should be implemented to face the problem of the world's aging population. Since 1964, the situation of population aging was becoming more and more severe in China (Figure 2). It was almost impossible to maintain the original pay-as-you-go pension fund system. If China continued to implement the pay-as-you-go system, there might be severe income indemnity in the future. Only the government could fill the expenditure gap in the end. Considering such a payment crisis, the Chinese government also responded to the global public pension reform and implemented a fund system. In the early 1990s, the pension funds system was

⁸ Xiaochun Su. "An Analysis of the Evolution of China's Pension Policy." *Journal of Finance and Economics*.

reformed from Pay-as-you-go to a partially accumulated system. The central government proposed to gradually establish a multi-level pension fund system that combines the basic pension system with enterprises' supplementary pension and personal savings account. In 1993, a policy called "the Decision about the Establishment of a Unified Basic Pension Funds System for Enterprise employees" was announced.⁹ After the implementation of this decision, employees who had participated in work and had paid their personal contribution to the pension fund system for more than fifteen years would receive a monthly basic pension after retirement.¹⁰ The basic pension consists of a basic pension and an individual account pension. Individuals who have paid for less than fifteen years in total will not enjoy basic pension benefits after retirement, and their personal account deposits will be paid to the individual in one lump sum.

After determining the basic reform direction, it was necessary to establish a specific plan for the pension fund system. In the next few years, some relevant departments began to embark on the realization of the social pooling of the fund system. In 1994, the "Notice of the State Council on Adjusting the Retirement Payments for Retired Persons in Enterprises" was issued.¹¹ In 1995, the "Notice of the State Council on Deepening the Reform of the Pension Fund System for Enterprises and Employees" formulated a new plan for the pension system, which combined enterprises' pension and personal accounts.¹² The new plan gives more pressure to these enterprises. According to the international standards of the aging population, China was entering a stage of aging, and the aging process was accelerating. The fifth national census published in March 2001 showed that the population aged 65 and above was accounted for 6.69% of the total population, which increased 1.39% compared to the data of 1990.¹³ By 2030, China will enter a more severe situation. The

⁹ Su. "An Analysis of the Evolution of China's Pension Policy."

¹⁰ Baike. "the Decision about the Establishment of a Unified Basic Pension Funds System for Enterprise employees."

¹¹ Zhang. "The Problem and the Outlet in the Transition"

¹² Zhang. "The Problem and the Outlet in the Transition"

¹³ Guo-ping Zhang. "The Problem and the Outlet in the Transition from Pay- as- you- go System to Accumulation Pension System." Management Department, Changshu College.

support rate of the old will be as high as 50%.¹⁴ The high contribution rate is unaffordable for enterprises and employees, which means that it is unrealistic to continue implementing a pay-as-you-go system in China. Therefore, shifting to a partial accumulated system is the last resort under the pressure of the aging population.

Additionally, the full fund system model is not feasible in China. More than 30 million retired employees and ten million employees are about to retire in the next few years in China.¹⁵ They did not have accumulated accounts in the past. If a full accumulation system is adopted, these pension debts will become apparent, which is unbearable for the country, enterprises, and individuals. Furthermore, the task of maintaining and increasing the value of the fully accumulated fund is hard work. The current capital market needs to be further improved, and the fund investment methods are relatively narrow in China. The risk of maintaining and increasing the value of the fund is very high. Almost all of the pension funds are used to purchase bank deposits and national debt. Affected by the continuous downward adjustment of bank deposit rates and the maturity structure of treasury bonds, the fund's return is minimal. Taking the Liaoning pilot project as an example, the annual return rate of individual funds was only 2% at the end of the year.¹⁶ In 2003, through agreement deposits and other methods, individual funds' annual return rate increased to 2.45%. However, they are far below the average wage growth rate of 7%.¹⁷ It is a difficult task for China to increase the value of the funds.

The partially accumulated system means that the country, enterprise, and individual all have responsibility for the system. The purpose of the system is to increase the paying ability to the pension fund. After the founding of the People's Republic of China, China began to establish the pension fund system. Until the 1990s, the system's target population was limited to urban agencies,

¹⁴ Zhang. "The Problem and the Outlet in the Transition"

¹⁵ Zhang. "The Problem and the Outlet in the Transition"

¹⁶ Sun, "With the aging population, the reform of Chinese pension funds system."

¹⁷ Sun, "With the aging population, the reform of Chinese pension funds system."

institutions, and enterprises' employees. The central government stipulated a pension standard, and individuals did not need to pay pension fees. Urban agencies, institutions, and enterprises should pay those fees for their employees. The central government is solely responsible for the profits and losses of enterprises. However, with the establishment and continuous development of the Chinese economy, the shortcomings of this traditional pension fund system were increasingly exposed, even more prominent in a transitional country like China. According to Kornai's view, there are three main problems of the welfare system left over from the planned economy: free-riding behavior prevails in the payment of pensions; unequal rights and responsibilities; incompatible incentives.¹⁸ Therefore, it was necessary to choose a fund-based mode in order to establish an incentive-compatible pension system.

The government found the right direction, but the reformed policy was not implemented well. In the process of the system transition, it is necessary to accumulate funds for the new system and cash out pension debts under the old system, which increases the costs of the pension system called the cost of system transition. Since the problem of the cost was not solved by the government during the establishment process, personal account funds were overdrawn by pooling accounts, resulting in empty accounts in many areas. Although society paid more attention to the pension fund system, the pay-as-you-go system was still used. Even the official document required that "income by expenditure, with a slight surplus, and some accumulation," the accumulation was actually difficult to retain due to various reasons. The pension calculation method did not change greatly. At the same time, due to the lagging reform of the wage system, personal contributions were actually not implemented in most enterprises. Many enterprises had much more pressure of paying pension fees after the reform. Lacking financial support from the state, some state-owned enterprises with a large proportion of retired employees had difficulty supporting their employees.

¹⁸ Zhang. "The Problem and the Outlet in the Transition"

At that time, many Chinese state-owned enterprises were in a stage of strategic restructuring. In other words, these enterprises had poor economic benefits. The collection rate of pension funds was low and was showing a downward trend. It was 95.7% in 1992, 92.4 %in 1993, 90.5% in 1994, 87.0% in 1996, and 80.0% in 1997.¹⁹ An average annual decrease of nearly 3% caused insufficient contributions for pension funds. Many enterprises refused to pay the basic pension fees. According to data released by the Ministry of Labor and Social Security, on January 8, 2001, more than 20 enterprises across the country owed basic pension insurance premiums of more than 10 million yuan.²⁰ The relevant data of the Macroeconomic Department of the State Council's Office of Economic Restructuring in June 2000 showed that there was a gradual occurrence of corporate pensions in arrears across the country. The number reached 41.4 billion yuan at that time.²¹ The money of the account was only enough for the payment of basic pension funds. From 1997 to 1999, the reformation of the state-owned enterprises entered a critical stage. Many enterprises directly pushed their employees into the pension fund system through "early retirement", which increased the pension system's financial pressure. To encourage enterprises and individuals to pay for pension funds, some regions of China adopted the methods of "preferential collection" and "discount collection" for social pension insurance premiums. This approach did increase the fund collection rate to a certain extent. However, due to the "policy loopholes" in the pension funds payment period, this approach formed a financial imbalance of newly insured persons "pays less and benefits more," which led to the formation and intensification of "new invisible debt" in fund collection.

In order to stimulate non-urban residents to contribute to the pension fund system, the central government suggested a universal pension system mode in those rural areas. The primary goal of the universal pension system mode is to encourage more non-urban residents to join the

¹⁹ Ru Sun, "With the aging population, the reform of Chinese pension funds system," Capital University of Economics and Business. Retrieved on Sep, 2020.

²⁰ Sun, "With the aging population, the reform of Chinese pension funds system."

²¹ Sun, "With the aging population, the reform of Chinese pension funds system."

system. However, the payback of the policy is low due to two facts. First, the central government does not provide any specific training to the local staff. Most of local staff do not understand the benefits of the pension policy clearly. Officers are unable to answer some questions raised by local residents. Second, the local governments do not pay much attention to the pension system. They only follow the central government's order rather than treat the pension system as a necessity. Also, the governments' propaganda about the pension system is not extensive enough. In most rural areas, there is no fixed billboards on the crossing and main streets. The enthusiasm of some non-urban residents to participate in pension system has not been active. Most non-urban residents prefer to pay at the lowest level of pension fees and their personal accounts do not have a real investment operation. The current rural pension system is not able to secure these residents' later life.

Policy Proposal

The policy proposes that an Official Rural Pension Institution needs to be established by the local governments. It should be under the management of the County Human Resource and Social Security Department. The Official Rural Pension Institution should have at least 5 full-time and stable employees: a director, a vice-director, one to two employees to deal with pension business, and one employee to be an agent to help the old who are uneducated. The goal of this proposal is to ensure that the total number of participants of the pension fund system will reach the same number of Chinese non-residents by 2025. Based on the Chinese reformation stage, the policy will last for five years.²² The target population of the policy is the Chinese non-urban residences (based on the "Chinese household registration booklet" called "Hukou" in China) aged between 20 and 60 years old. The funds to operate the Official Rural Pension Institution will be directly transferred to the

²² Keyong Dong, "The development and reformation of Chinese pension funds system," China Academic Journal Electronic Publishing House. 2018.

institution's account instead of transferring to the local government's account. The amount of operation funds will be the same as before.

The Official Rural Pension Institution has three functions. First, it should provide official training to its stable employees to build a professional pension team. Only a professional team can actually implement the policy. The central government should organize online training to make sure that the staff of the institution clearly understands the policy and the benefits of the pension fund system. The Municipal Agricultural Insurance Center should also organize training on information system software applications and file management online. In order to ensure these employees are professional, tests are allowed. Second, the staff should encourage citizens to take part in the pension fund system and make sure that they pay fees every month. The Official Rural Pension Institution is established to be a bridge between the government and the residents. Visiting local residents' homes and explaining the benefits of policy are the first steps to building trust. They should encourage residents to pay a higher level of pension fees than before. The institution needs to provide extra subsidy for destitute groups. For example, the government of Yongding County pays a minimum standard pension fee of 100 yuan for the death, disability, and one-child family.²³ A further 10% subsidy will be provided to the needy groups to release their pension payments pressure.²⁴ Local institutions should take similar responsibility depending on the local situation. In those small counties, people know each other and trust each other. The local officers' words are more convinced for the rest residents. Official staff, teachers, and factory employees need to participate in the pension fund system first to set a good example for local citizens. Third, the institution should strengthen the publicity and increase residents' awareness of the pension policy. The National and Provincial-level units can use the media such as television, radio, newspapers through Weibo, Wechat moments and Qzone, the top three popular networking sites, to strengthen

²³Baidu Wenke. "Research report on social Endowment Insurance for urban and rural Residents"

²⁴ Baidu Wenke. "Research report on social Endowment Insurance for urban and rural Residents"

the publicity of rural pension fund system. All counties should also use local media to promote the pension system. The Official Rural Pension Institution can use outdoor large-scale billboards, publicity columns, and banner slogans for publicity. Staff also can print promotional materials and visit residents' homes with these materials.

The Official Rural Pension Institution shall be initiated by the Institute of Population and Labor Economics, Chinese Academy of Social sciences (IPLE-CASS). The IPLE-CASS should then submit the proposal to the Ministry of Human Resource and Social Security of the People's Republic of China (MOHRSS) of the China State Council. Based on the proposal, the MOHRSS will be the leader to study and propose a final proposal of establishing the Official Rural Pension Institution. The final proposal should be submitted to the Central Leading Group to make reform and final decision. The central government will announce in public and the local governments will implement the proposal.

Policy Analysis

First, the policy is aiming to ease the aging population problem and decrease the pension debt by training a professional team in rural areas. Based on history, the Chinese pension fund system has experienced several reformations. These hasty reformations have left the Central Government with heavy debt, which has passed to the new pension fund system. In 1995, the basic enterprise pension fund system changed from the pay-as-you-go to the mode named "Partially Accumulated Account." The old and the middles did not have accumulated accounts before the reform, which is the "cost of transformation." The most conservative estimate of the cost is 2.8 trillion yuan.²⁵

²⁵ Jun, Lu. Journal of Jiangxi University of Finance and Economics. "Risk Management of the Fund: Lifeblood of Sustainable development of Basic Old-age Pension system of our Country."

Comparison of Pension Cotributions in Major Countries around the World

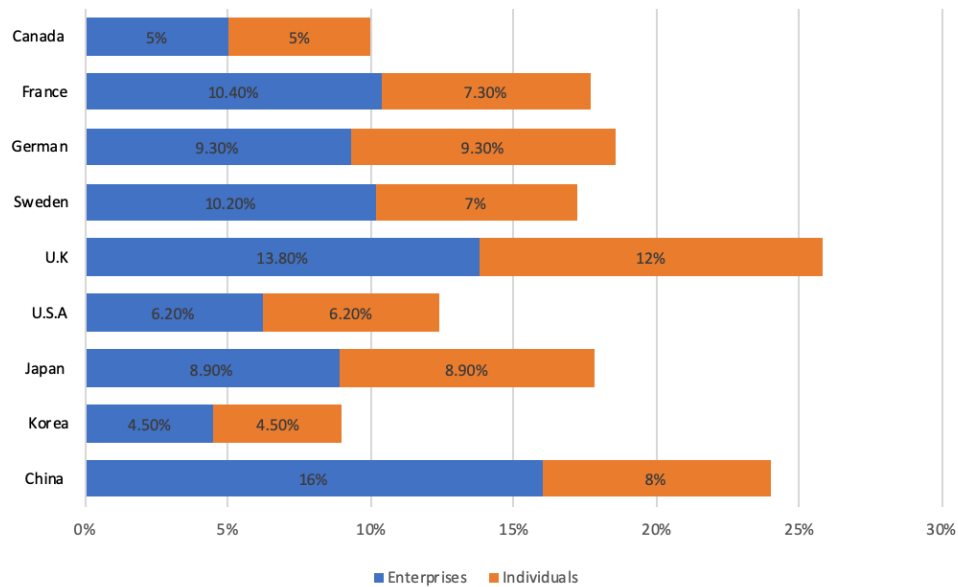


Figure 3.

Source: China Chief Economist Forum Research

The government is unwilling to pay the cost, and the social pooling fund is not able to fill the gap either. China's pension system is overly relied on the first pillar, the enterprises. The Current contribution portion of the enterprises is about 16% (Figure 3). The percentage in China is significantly higher than that in developed countries, which leads to an overburden of Chinese enterprises.

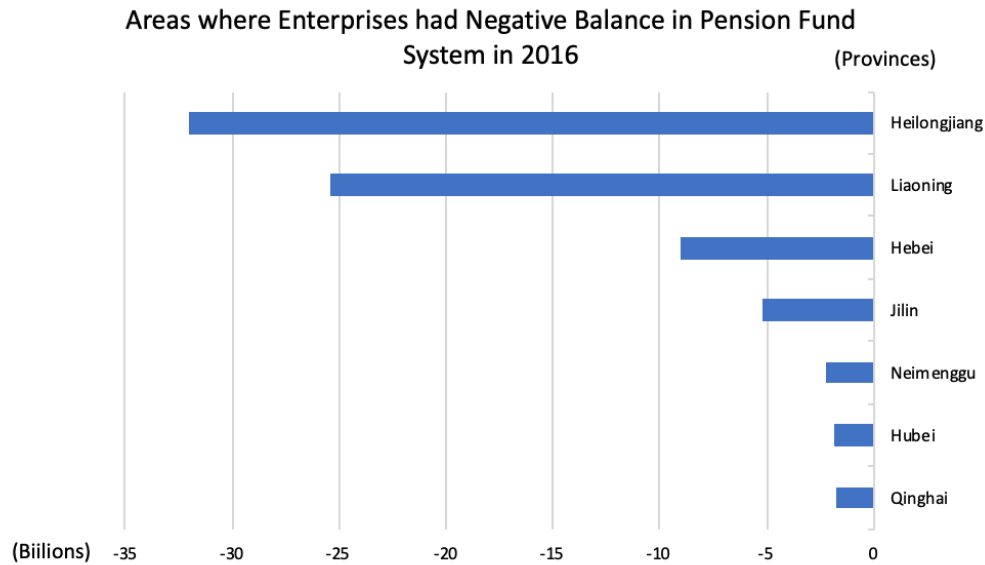


Figure 4

Source: China Statistical Yearbook of 2016. National Bureau of Statistics of China (in RMB)

Many enterprises in urban cites refuse to pay pension fees because the balance of their pension accounts has already been negative (Figure 4). The balance of Heilongjiang province was negative 32 billion yuan in 2016 (Figure 4). Therefore, the sustainability of the fund's source has been severely challenged.

In order to directly increase the revenue of the system, the pension fund system should involve more participants. The participation rate is low in Chinese rural areas. It is a reliable choice to expand the system to the rest non-urban residents. Currently, there is no professional staff who clearly understand the pension system. They do not know the importance and benefits of the pension system and regard the pension problem as a task. As a result, the participation rate remains lower in the rural areas than that in urban areas. This situation can be changed by establishing a professional institution. China has a population of more than 1.4 billion.²⁶ In 2018, about 418 million people participated in the urban pension fund system, and about 524 million non-urban residents

²⁶ China Business Industry Research Institute . "In 2018, 942 million people participated in basic pension insurance nationwide. Total fund revenue reached 5.4 trillion yuan." Feb, 2020.

participated in the rural pension fund system. A total number of 942 million people, about 67% of the population, have already participated in the pension fund system. Due to the unbalanced economic development, there is an imbalanced contribution among different regions, especially in the rural areas. The total pension fund revenue was about 5.4 trillion yuan in 2018: the urban pension fund revenue was about 5 trillion yuan, and the rural pension fund revenue was about 380.86 billion yuan.²⁷ Even though the number of participants in rural regions is greater than that in urban cities, the contribution of non-urban residents is much lower than that of urban residents. Having a professional team will increase the participation rate of the non-urban residents (based on the "Chinese household registration booklet" called "Hukou" in China). The professional staff will clearly explain the benefits of the pension system and the risk of not joining the system. When people understand the ideology of the pension system, they probably will pay more attention to it and consider it.

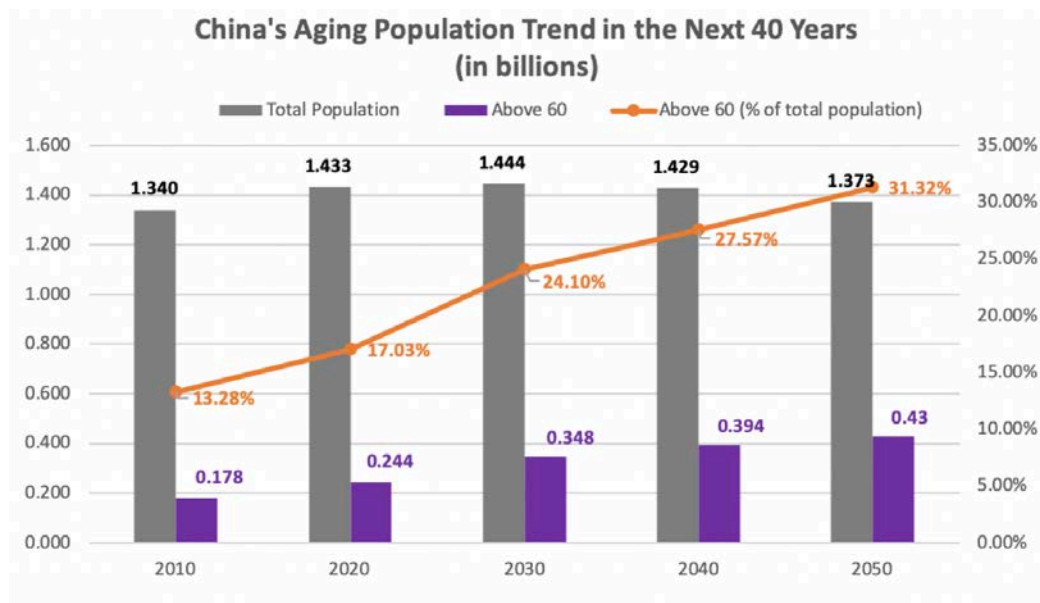


Figure 5

Source: Chinese Academy of Social Sciences.

²⁷ China Business Industry Research Institute . "In 2018, 942 million people participated in basic pension insurance nationwide. Total fund revenue reached 5.4 trillion yuan." Feb, 2020.

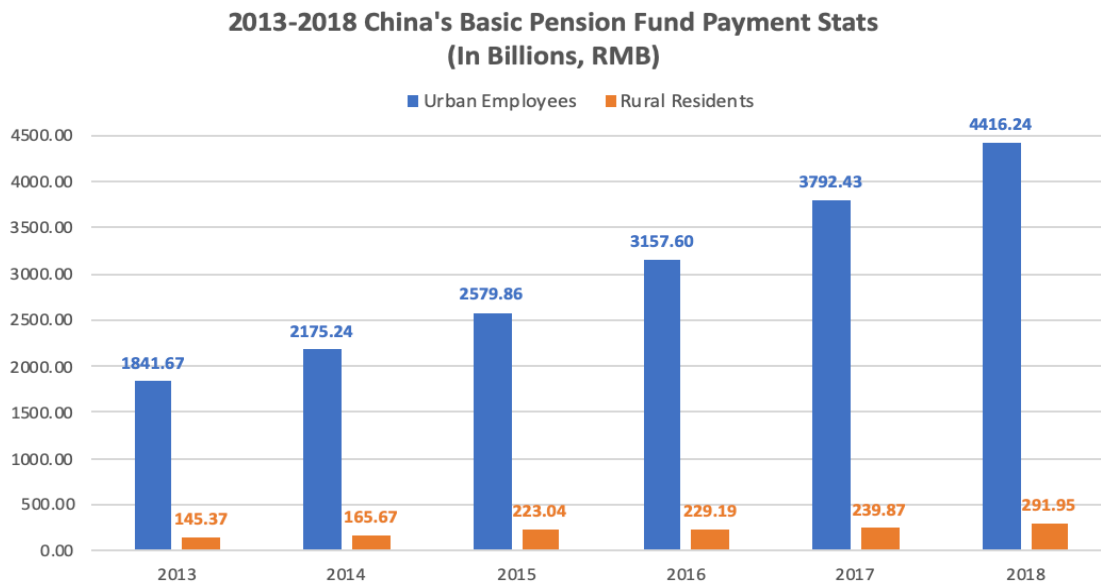


Figure 6

Source: Chinese Academy of Social Sciences.

According to China's aging population trend in the Next 40 years (Figure 5), China has entered into an aging society, which is a new and an unavoidable national condition. The problem of the aging population is becoming more acute and it will be aggravated with the aging development. It is a good trend that many non-urban residents are moving to cities and participating in the pension system. However, at the same time, the pressure of the debt is also increasing. According to the 2013-2018 China's Basic Pension Fund payment statistics, the payment to retirees is gradually increasing every year (Figure 6). The payment is guaranteed by the government, so it is unavoidable. The other way to reduce the debt is to increase the number of participants. The urban pension fund system has already covered 80% of employees.²⁸

²⁸ SHENBAOLAN. "The Pension Coverage Reached 80 percent." Nov. 2020.

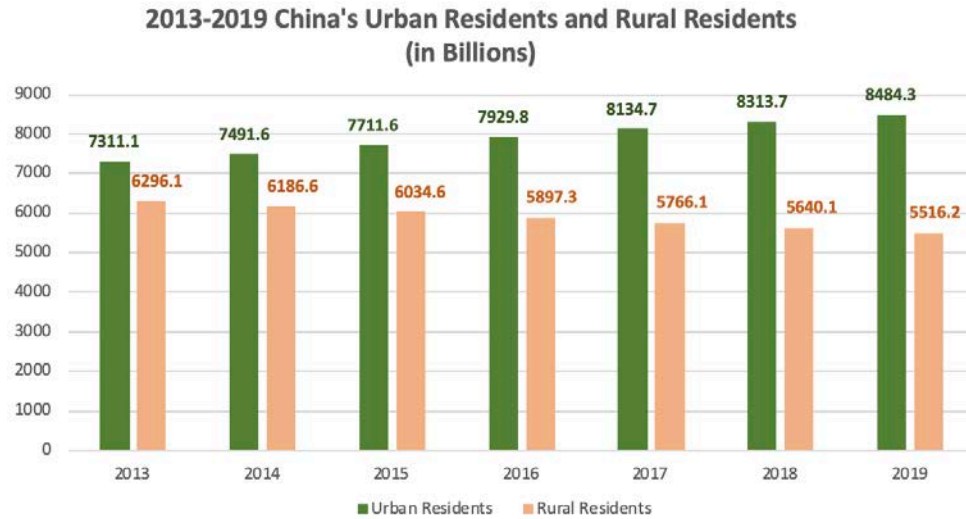


Figure 7

Source: Chinese Academy of Social Sciences.

Even though there is an increasing number of rural residents moving to the cities, the number of the rest rural population is still high (Figure 7). According to the fifth census data (among the 31 provinces, autonomous regions, municipalities directly under the Central Government and soldiers in active services in mainland China), about 807.39 million people lived in Chinese rural areas, accounting for 63.78% of the total population.²⁹ In 1992, the Ministry of Civil Affairs issued a Basic Plan for County and Rural Pension Fund System (Trial).³⁰ Although the Basic Plan is only a normative document formulated by the Chinese government based on the rural area's reality to encourage farmers to participate in the rural pension fund system voluntarily, their behaviors were not mandatory by law. However, the document did build up the rural pension fund system from “nothing” to “something” in those rural areas. After more than 20 years of practice, the rural pension fund system has gradually exposed problems, which means the system needs to be compulsory to some extent to reduce the debt. Workers of township enterprises and private

²⁹ CHYXX. “An analysis of China's total population, population structure, urban and rural population and Population Aging in 2019.” April, 2020.

³⁰ CHYXX. “An analysis of China's total population, population structure, urban and rural population and Population Aging in 2019.”

teachers should be forced to participate in the pension fund system. The policy will be a boost for the government to adequately solve the rural population's pension problem, which will be a rejuvenation for the system. Increasing the number of rural residents will be a new source for the system. The Official Rural Pension Institution has the power to force workers and teachers to participate in the pension fund system. The differences between rural regions should also be taken into consideration when implementing this plan. Some rural areas are rich and some are extremely poor. In the wealthier rural areas, farmers should be gradually forced to participate in the system and then the government should gradually expand the system to other poor areas. If the institution works well, it will make more people to participate in the system and directly increase the revenue of the system.

In recent years, issues relating to the “agriculture-rural areas-farmers” in China have attracted great attention from the Chinese government. Based on the experience of Japan, the key aspect of this issue is the farmer, and the primary solution is to increase their participation rate of the pension system. Having more non-urban residents joining the rural pension fund system will directly increase the income of the fund. The low participate rate can be increased by providing correct guidance of the pension system. Due to the lack of professional staff, local citizens do not realize the benefit and necessity of the pension system. The Official Rural Pension Institution is vital to provide professional guidance to these citizens. At the same time, the Chinese government should play a leading role by providing financial support in this situation.

Second, the Official Rural Pension Institution is established to help the government to earn trust from the rural non-urban residents by strengthening the publicity and increasing their awareness of the pension policy. The purpose of earning trust is to make more people participate in the pension fund system. The government can use the media to reach its goal. Social media is an essential factor in the political realms of China. It is an influential contributor of spreading news,

policies and relative information. According to the Statistical Report on Internet Development in China, Weibo, WeChat Moments and Q Zone are the top three popular networking sites in China.³¹ National units can use these three popular networking sites to promote the benefits of the rural pension fund system for young people who live in the rural areas. Only the government and academic agencies understand the scientific reason behind the pension fund system. The governments did not effectively communicate the scientific reasoning to the public, which caused the ineffective governance. Having more media exposure of the pension fund system can facilitate civic and political participation, which may help the government earn public trust. For example, Facebook played a significant role during the U.S 2008 presidential election. On Facebook, U.S citizens discussed their political attitudes and information, and participated in online communication.³² These internet sites only need to revise the old pension news and the budget of promotion for central government will stay the same. The institution should use local medias to show the benefits of the pension system and increase the awareness of the old rural residents. Based on history, the pension fund system's slogan has changed many times, which affects people's recognition of the pension fund system. For example, the propaganda slogans on the internet about who should provide support for the aged, range from "only one good child, the government will provide for the aged" (1985), to "only one good child, the government will help with the aged" (1995), to "the aged cannot rely on the government" (2005). In recent years, the slogan changed to "it is better to delay retirement, but provide for the aged yourself." (2012) The changing of the slogan with the suspicion of "getting rid of responsibility" makes the public doubt about the government's credibility, which is not conducive to smooth the progress of governance. Having a fixed and trustable slogan is essential for publicity. The staff of the Official Rural Pension Institution

³¹ Shao, P., & Wang, Y. (2017). How does social media change Chinese political culture? The formation of the fragmented public sphere. *Telematics and Informatics*, 34(3), 694-704.

³² Vitak, J., Zube, P., Smock, A., Carr, C. T., Ellison, N., & Lampe, C. (2011). It's complicated: Facebook users' political participation in the 2008 election. *Cyberpsychology Behavior and Social Networking*, 14(3), 107-114. doi:10.1089/cyber.2009.0226

will visit every single non-urban resident's home and explain the benefits and necessity of the system to them. In-person conversation will be more efficient than other forms of communication. More people will pay greater attention and change their attitude to the pension fund system.

Many international examples have proved that establishing pension institutions is a better choice to increase the efficiency of the pension policy. China and Japan have similar process of industrialization, so Japan's action might be a good example for China. Japan entered an aging society as early as 1970.³³ To solve the problem of aging, Japan has built a well-structured and comprehensive pension system, which basically solved the farmers' pension problem. Japan's pension system is flexible, and it is constantly adjusted and revised with changes of the social and economic environment. Since the 1970s, the rural pension fund system has been continuously supplemented, reformed and improved. The Japanese government enacted the "Farmers Pension Fund Law" in 1970 and started to implement in in January 1971.³⁴ The Farmers' Pension Fund and the National Annuity are complementary to each other, working together to ensure the life of farmers in their later years and improve their welfare. The Japanese government constructed a diversified pension care service institution. Japan's government established the elderly care institution to provide targeted services based on the physical, mental and health needs of the old. In Japan, there is also an Agricultural Cooperative Association (ACA) to manage the farmers' pension. The organizational structure of the ACA is unique.³⁵ It has played an important role in these rural areas, such as being responsible for the stability of the pension fund, providing medical insurance and nursing insurance. There are many similar non-governmental organizations in Chinese rural areas. The Chinese government may name these non-governmental organizations to become official institutions.

³³ Qingtang Huang. "Japan's Rural Endowment Insurance System and Its Use for Reference to China."

³⁴ Huang. "Japan's Rural Endowment Insurance System and Its Use for Reference to China."

³⁵ Huang. "Japan's Rural Endowment Insurance System."

Germany's rural pension system is another good example. Germany is the first country to establish a social security system. The Germany's rural pension system started relatively early and became very mature. As early as 1886, a complete rural pension fund system was promulgated. In 1995, the "Agricultural Pension Reform Law" was implemented.³⁶ There are four characteristics of the Germany's rural pension fund system. First, its system basically covers the whole rural population. Even though there is a difference between the rural and urban pension system, the participants can change the type of the pension fund system according to their status. Second, Germany's government established an effective rural pension fund system with clear levels. Germany relies on the pension insurance, old-age property and self-support to maintain the balance of the entire rural pension fund system. Third, professional rural pension system institutions are established to secure these participants. It guarantees the implementation of the rural pension system's policy. From the federal government to the state governments in Germany, they all have rural pension institutions to implement autonomous management based on local situations. Now, there are 13 rural pension fund institutions in Germany. These institutions achieve resource sharing, which improves management efficiency and economic benefits. The state management agencies are responsible for the professionalization of the institutions. This process not only saves costs, but also brings other conveniences to participants. Fourth, the German government plays a leading role of the implementation of the rural pension fund system. From the experiences of western developed countries, the implementation of the system must be completed under the leadership of the government. The role of the government starts with legislation by ensuring that the system is reasonable and legally regulated in legislation; during the operation, the government pays more attention to the real implementations of the policy, strengthens its capital investments, and supervises the rural pension institutions. The German government and pension institutions have a

³⁶ Ifeng News. "International discussion on pension Experience: Three roles of government in Rural pension system in Germany." Dec. 2019.

clear division of labor, powers and responsibilities. The proportion of subsidies is relatively high and showing an increasing trend every year. China definitely can learn from the experience and combine it with Chinese characteristics.

Even though there are many successful cases of institutions, it may take a longer time for non-urban residents to trust the government in China. The publicity may change their attitude immediately, but it may take longer for people to take real action. The income of these non-urban residents is unstable. It also depends on the governments' attitude toward the financial responsibility of the pension fund system. However, the current debt is heavy right now. Even though the non-urban residents trust the system, they may not have extra money to pay the pension fees. Additionally, there are large regional differences in China and the situation is more complicated. The implementation of the Official Rural Pension Institutions may not be reliable in some extremely poor areas.

Political Analysis

Non-urban residents based on the "Chinese household registration booklet" called "Hukou" in China are one of the important stakeholders of this policy. China has a large percentage of non-urban citizens, which accounts for 63.78% of the total population (about 890 million citizens).³⁷ However, according to the Chinese Bureau of Statistics, only 532 million non-urban residents participated in the rural area's pension fund system. Many non-urban citizens are not willing to pay the money.³⁸ Even though they participated in the system, they chose to pay less money to the system. About 94.47% chose to pay at the lowest level (100 yuan per year), and about 3.94% chose to pay 200 to 300 yuan per year, and only 1.58% chose to pay 400 yuan per year.³⁹ Especially for

³⁷ CHYXX. "An analysis of China's total population, population structure, urban and rural population and Population Aging in 2019." April, 2020.

³⁸ Chinese Bureau of Statistics, "In 2019, 43.42 million people participated in the basic old-age insurance for urban workers, according to the Statistics Bureau." February, 28th, 2020.

³⁹ Baidu Wenku. "An investigation report on the work of social endowment insurance for urban and rural residents" July, 2019.

non-urban residents aged between 16 to 45, they did not understand the current policy clearly.

These data and reports demonstrated that those non-urban citizens lack the awareness of joining the pension system to secure their later life, leading to the loss of many participants to the system.

⁴⁰ Most of the young and middle-aged non-urban residents show that the pension problem is far away from their age and do not care about the pension system right now. They prefer to participate in the system for 15 years because they are afraid that the policy will change someday. Non-urban residents close to 60 years old have fluke minds that the pension fund system will cancel their duty with subsidies and provide their foundation money when they are 60 years old even though they are not in the system.⁴¹ The publicity methods are not flexible enough, and people do not have a deep understanding of the current policy, which leads to lower participation in the pension system.

In this case, having more accurate publicity is necessary in the new policy. Each county could make full use of various media, such as radio, television, network, newspaper and so on. For example, using larger outdoor billboards with a new slogan, and printing propaganda materials, and sending short messages about the system. Having diverse publicity is an efficient way to attract people's attention and let them realize the importance of the pension system. Having more people participate to the system means having more revenue of the system. Japan provides a good example by establishing a system that everybody should participate. Old age is a stage that everyone must go through someday, and no one's life could avoid it. The government should awake people's awareness of the unavoidable old age stage.

Jinping Xi, the leader of the Communist Party of China as well as the representative of the Chinese central government, is another stakeholder of the policy. Xi has strongly focused on building a moderately prosperous society in all aspects, including the "agriculture-rural areas-farmers." One of the sentences President Xi always says is that when defining a moderately prosperous society, the

⁴⁰ Baidu Wenku. "An investigation report on the work of social endowment insurance for urban and rural residents"

⁴¹ Baidu Wenku. "An investigation report on the work of social endowment insurance for urban and rural residents"

key is to observe farmers' condition. His attitude towards the rural pension fund system is the foundation of government work. At the Central Rural Work Conference of the CPC in December 2019, President Xi particularly emphasized and analyzed the current situation and tasks faced by the "agriculture-rural areas-farmers" work.⁴² The conference was aimed to fight poverty and establish a well-off society in all aspects by building more rural infrastructure, improving community-level medical and healing services, and strengthening social security in rural areas. The Central Government aimed to prioritize the development of rural areas by improving land-use policies. The policy's establishment is a concrete and reliable practice to increase the pension fund revenue to guarantee those retirees' later life. The policy is under President Xi's development philosophy, and the Central Government of China will absolutely support it. Meanwhile, this policy's implementation will reflect President Xi's statement of strength in the "agriculture-rural areas-farmers" social security. If the majority of migrant workers are included in the pension fund system, they can enjoy the same social security benefits as urban residents in their later years. Most of the migrant workers are non-urban citizens. If participating in the system will bring better pension security when they are old, farmers will actively participate in the system rather than escape. The revenue of the pension fund system will increase, which could secure more people in their later life.

The local government is also an essential stakeholder. Many local governments of rural areas do not pay attention to the system. Officers in local governments are also not clear about the policy. According to the report on rural pension system of 2018, the current staff do not have enough ideological understanding about the pension system. They regard the pension work as a short-term task.⁴³ The local government did not form an effective propaganda mechanism of the pension fund system for their citizens. The public awareness of the pension fund system is only 47%

⁴² Xinhua Net. "Xi Jinping has given important instructions on doing a good job in 'agriculture-rural areas-farmers'." December, 2019.

⁴³ Wenke Baidu. "2018 Report of the Rural Pension Fund System." Nov. 2018.

in the rural areas.⁴⁴ For example, there is no fixed billboard in the market towns and key crossing roads.⁴⁵ Most local governments did not hold the group meetings about the pension system. They only made phone calls to inform their citizens. However, local governments need the trust from the public to enact the rural pension fund regulations and policies. First, most rural areas do not have a specific department for the pension fund system, so no one wants to take full responsibility for this work. For counties that have the pension fund institutions, many staff of the institution have multiple management. At present, most counties' personnel have dual status, and their salaries are paid by the local government, not the county. Those staff have to undertake the heavy pension business work and finish various tasks assigned by the local government. They cannot achieve full-time dedicated energy for the pension work, and are easily dispersed. The county-level department is inconvenient to manage staff from the local government, which will inevitably affect the pension tasks' completion at the county level. Second, the high turnover rate of the staff is not reliable to actually implement the current policy. The staff of the current institutions are not stable. Most of the members are part-time staffs and some are temporarily hired. Except for the pension work, they also undertake a large number of other townships works. Also, the current staff is not professional about the pension system. In addition, there are also frequent changes in part-time personnel. Many of them left their jobs when they were familiar with pension work, which caused the team to become unstable and difficult to carry out the policy effectively. Training a professional institution is necessary to increase the public awareness of the pension problem.

Establishing a specific pension department with China's characteristics in rural areas is necessary to increase the policy's efficiency. The local government should clarify the function of the institution. After years of reformation and development, many people did not trust the pension fund system anymore. They are afraid that their money will disappear like the first reformation. Building

⁴⁴ Wenke Baidu. "2018 Report of the Rural Pension Fund System."

⁴⁵ Wenke Baidu. "2018 Report of the Rural Pension Fund System."

trust between people and the government will be hard. One significant advantage of rural areas is that everybody knows and trusts each other. If the institution's staff visit non-urban residents' homes and talk to them, many of the residents will be willing to join the system. Visiting their home will bring more revenues eventually. This will take a lot of time, so no staff of the pension institution will be managed by other departments. Their jobs are only to work for the rural pension system. Trying to reduce the number of part-time staff and increasing the number of regular staff are the keys to establishing the department. Additionally, officers and Party members in local governments should be pioneers to participate to the system. Staffs of the institution need to be trained by people from the central government. To reduce the costs, the central government could use the online education platform to carry out the policy publicity to local staff to make them more professional. It may be difficult for the central government's staff to train the local staff. Based on the educational level, local staff may feel confused about the policy. It is necessary to hire some people who have higher education. Enhancing training is essential. The local staff must know about the standards and policies. The local government could confirm their professional ability by testing them.

The central government is also an important stakeholder to provide financial support and guarantee the rural areas' pension work budget. For some poor areas, the monthly salary of the temporary hires is less than 1,000 yuan, and the life for them is really hard.⁴⁶ The low income affects staffs' passion to the pension work, resulting in unstable job status. However, many counties have very high budget. The central government needs to rebalance the budgets for those counties based on their economic development to be fair. Besides, the counties' pension institutions do not have separate accounts from the local governments. The funds to the institutions allocated by Human Resource and Security Department are directly sent to the local governments' accounts.

⁴⁶ Baidu Wenku. "Research report on the construction status of grassroots social security work platform." Sep. 2018

Those institutions do not have power to control their funds, which affects the enthusiasm of pension work and the development of the pension fund system. The central government could force the local government to transfer the money to local institution's account to let the institution have total control of the fund. It is also important to reward those staff if their collection reaches a specific amount of pension funds.

Recommendation

Despite the fact that this proposal might encounter certain political and regions' obstacle, the necessity of this proposal is still high. China is facing the aging problem and the size of the old people continues to expand, which is an irreversible phenomenon. In order to prevent the huge impact of the aging population on social pension system, China should respond early and think concisely. This policy meets common interests of several stakeholders.

First, these Chinese non-urban residents need the services that this policy provides. The elderly people still mainly rely on their own labor income and the financial support of their children. About 80% of these older citizens need to do farm work to make a living. In order to ensure their later life, the State Council has already provided pension services for these old men. Because the county staff is not professional about the pension system, the participate rate remains low in rural areas. Most of these participants chose to pay at the lowest level. It indicates that my proposal will be necessary to increase the number of participants of the pension fund system and increase the revenue of the pension system.

Additionally, this proposal will receive attention and support from President Xi and CCP. Establishing a complete pension fund system means to secure people's elderly life. It's government's duty to provide for the general public an efficient and effective secured pension fund system. China has reformed the pension policy serval times, but the policy was not implemented well in those

rural areas. Right now, the State Council is carefully studying relevant policies in order to meet the demand of an aging population and extended life expectancy for both cities and rural areas.

My proposal will make a great contribution to decrease the pension fund system debt and increase the number of participants of the system. It fits the current development ideology and plan of the CCP and the state council. Even though the “hidden debt” problem may not be solved immediately by this proposal, it is really necessary to increase the number of participants to the pension fund system. Hereby, I recommend this policy.

CHENHUI WANG

Johns Hopkins University
Baltimore, Maryland

OBJECTIVE

Getting more experiences can help me improve the sense of responsibility. Through internships, not only I can make more friends, but also I can learn more skills that I cannot learn from the university. The part time job is the first step that helps me to adapt the society.

EDUCATION

Johns Hopkins University

January 2019 - December 2020

Major in Public Management

Core Curriculums: Global Political Economy, Managing Dangerous Futures: Global Political Risk Analysis, Negotiating as a Leadership Skill, Financial Management & Analysis in Public Sector, Economics for Public Decision-Making, etc.

Rutgers University-New Brunswick, NJ

September 2014-May 2018

Major in Finance

Core Curriculums: Financial Accounting, Cooperate Finance, Investment Analysis, Marketing, Management Skills, Operating Management, etc.

High School Affiliated to Renmin University of China, Beijing **September 2011-May 2014**

WORK EXPERIENCES

- **KOL in Chinese Social Media**
 - Operating Self-media accounts in Chinese social medias platforms, with two hundred thousand existing fans
 - Use spare time to create high-quality content, always pay attention to and collect fashion hotspots, activities.
 - Be invited to participate in the promotion of JoMalone London, YSL, L'Oréal, Shu Uemura, Swisse, PANDORA, Kiehl's, etc.
- **Blue Focus Public Relation Company** June 2019 – August 2019
 - Participated in the planning and execution of public relations projects for FMCG brands such as Nestlé and Yili, and mastered the public relations process and industry knowledge

Promotion of Nestlé Meal Replacement Milkshake Project

 - Responsible for the operation of the Nestlé WeChat account: the creation, editing and promotion of an official account article every week,

- Participated in brand promotion projects: through active search, invitation and cooperation with third-party channels, select KOLs that match the brand image for advertising on Weibo and other social medias to increase brand exposure
- Maintain good and timely communication with co-operating personnel from the media and assist them in revising the copy. A total of thousands of articles has been published and promoted by dozens of KOLs.

Yili Xin Huo Project Promotion

- Under the leadership of the project manager, actively communicate with the brand and endorsements, understand the promotion needs, assist in the planning of the event plan, assist in the post-event promotion and maintenance, always pay attention to new media platforms such as Weibo hot search, and master analysis and cooperation Artists Sun Honglei, Wang Yibo and the popularity of the brand
- Cooperated with brand promotion channels, artist fan clubs, etc., to ensure the exposure during the promotion period. The number of Weibo reposts reached 22.9w and the number of comments reached 10.1w
- Participated in the summary of the promotion report at the later stage of the event, organize the data and analyze the preliminary promotion effect with Excel
- Responsible for sorting out the reimbursement bills for artists attending events and other administrative work

- **Huatai Securities Company in China** June - July 2015

- China Securities Regulatory Commission rates Huatai Securities Company as A Class. It is a very big company, so I stayed in its offices in Beijing. I spent a month in this company during the summer, 2015. Helping them manage customers' documents and information was one of my main jobs.
- I joined a team that help a company go public in China. My main job is to organize all the information that the company needs to go public and to communicate between two companies. Because it is only a intern-ship, I was just an assistant to help other teammates.

- **EF Education Program (Part-time)** July – August 2017

- EF education Program is a global language studying organization. My job is to help the foreigner professors to communicate with their small stars Chinese students who are from 3 years old to 12 years old. Being a teacher assistant, I not only need to take care of small students but also need to help professors to prepare for the class.

- **New York Fashion Week**

- Participating in the NYWK is really an interesting experience. Helping designers to choose models and contact with any stars who are invited to the show. Basically, I interned in the public relations department to manage the back stage.

ACTIVITIES

Leadership

- The Leader of Recreation and Sports Department of Student Union 2012-2014

I was selected to be the leader of recreation and sports department. I was in charge of the entertainment and sports activity for all students in our grade. Because we have local teacher and international teachers, I have to know about their holidays and plan some celebrations. Every year, I organized basketball matches in order to help schoolmates to learn more from each other.

- The organizer and compere of the AP Star Reward Ceremony 2013

I with my team members plan all the process of the ceremony, such as who we should invite, where it should held, what time the ceremony is. We designed special prize cup for all A students and the most progressive students.

Volunteer/Community Services

- Habitat for Humanity Summer (2013,2015,2016)

The volunteer program that I attended is basically to help people who lose their home in some natural disasters, like earthquake, mudflow and so on, to rebuild their houses and reconstruct their facilities under the intense sun.

- Volunteer tutor in Hope Primary School in China 2011-present

Students in Hope Primary School are from 7 years old to 13 years old. These kids do not have money to go to the public schools. All teachers at the school are volunteers. I taught them simple math problems and the music class because I have learned singing for four years. After class, I always go to their shabby houses with other volunteers to check their homework.

- Volunteer in Gehua Human Resource Company August 2018

I joint a program that helps a famous Chinese singer to hold a concert event. Our team should consider the budgets, the advertisement, the rental equipment, the stadium and so on. My main job is to train volunteers before the concert begins and supervise them during the concert. I trained about 300 hundred volunteers about the information of the stadium, how they should guide all audiences before or after the concert.